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CROP INSURANCE TESTIMONY

Presented to:

**U.S. House Committee on Agriculture
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By:

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INTRODUCTION

National Grain Sorghum Producers would like to thank Representative Moran and Members of the Subcommittee for calling this important hearing today. We welcome all of you to Lubbock, which also serves as headquarters for National Grain Sorghum Producers. My name is Kenneth Rose, and I am serve as president of the National Grain Sorghum Producers. I farm in a family operation near Keyes, Oklahoma in the Oklahoma Panhandle. Our diversified operation includes grain sorghum, wheat and cattle.

NGSP represents U.S. grain sorghum producers nationwide. Headquartered in the heart of the U.S. sorghum belt at Lubbock, Texas, our organization works to increase the profitability of grain sorghum production through market development, research, education, and legislative representation.

We would like to thank the Committee Members for their support in our efforts to have crop insurance price elections more accurately reflect the market shift that has occurred in recent years which has brought sorghum prices on equal footing with corn. We are encouraged by a recent Federal Crop Insurance Corporation board resolution that recommends a new formula for determining price elections for sorghum.

Our recommendations to you today are focused on the specific needs of grain sorghum producers, and we appreciate your consideration of them. But, I would like the Committee to be aware that Lubbock is at the South end of an area that has been in a disaster situation for at least the last five years. At this point, we are at least 8 inches below normal rainfall—a critical shortage in area that only gets 12 to 18 inches of rainfall per year. The indications are that it would take from twelve to 60 inches of moisture in the next six months to bring our moisture levels back to normal.

SORGHUM INDUSTRY OVERVIEW

The United States grain sorghum industry is comprised primarily of nine states in the Great Plains, although grain sorghum is grown from California to New Jersey. Last year, the states of Kansas, Texas, Arkansas, Missouri and Nebraska accounted for the majority of production. Over the last ten years grain sorghum acreage has ranged from 13 million to 9.3 million planted acres and production has ranged from 795 million bushels to 370 million bushels. Additionally, the forage sorghum industry utilized as silage, hay and direct grazing represents another 5 million acres of production.



The U.S. is the world's chief producer and exporter of grain sorghum, and the crop ranks fifth in importance as a U.S. crop behind corn, cotton, soybeans and wheat. Roughly half of the U.S. crop is exported, while the rest is used domestically for feed and an exponentially growing amount—a 57 percent increase in the last 2 years—going to ethanol.

With no less than 8 proposed ethanol plants under various stages of development in the sorghum belt, the ethanol industry holds tremendous promise to become the single largest user of grain sorghum in the United States if they can be assured a reliable supply of grain. Worldwide, approximately 50 percent of grain sorghum is consumed directly as a food grain, leaving a tremendous growth opportunity here in the U.S.

Additionally, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle.

SORGHUM AS RISK MANAGEMENT

It is most appropriate that sorghum is represented here today, because we believe that grain sorghum in and of itself is a risk management tool. This is primarily due to its ability to withstand extremely dry and arid conditions better than any other grain crop. For instance, according to a Texas A&M study, sorghum uses 1/3 less water than corn. NGSP's members believe that federal farm programs, like crop insurance, should be promoting the conservation of resources like water. Setting the sorghum price election equal with corn helps conserve water. More and more farmers have been planting less drought tolerant crops in the arid areas of the Sorghum Belt because farm programs like crop revenue coverage insurance (CRC) have encouraged them to do so. Farmers are experiencing crop failures because of the lack of water (which also has increased crop insurance claims) or they have turned to irrigation to produce a crop, thereby increasing the pressure on water usage.

However, sorghum's crop insurance track record is deceptive at first glance because, due to its stress tolerance, it is planted in the most marginal areas or as a "catch crop" during marginal planting periods after a preceding crop fails due to hail or drought.

The Agricultural Risk Protection Act passed by Congress effectively ended "double dipping" and planting a second crop when there was little hope for it. We hope that sorghum actuarial loss numbers can be refigured to reflect these changes in the law.

In fact, later in this statement, NGSP will detail how we believe that some current crop insurance provisions affect the planting choices that producers make. Perhaps if these issues are



rectified by USDA, sorghum will be the first crop of choice more often, and its true risk-management characteristics will become more evident.

NGSP's primary concerns that we will detail today fall into two main areas. First, a level crop insurance playing field is needed for grain sorghum so that crop insurance will no longer distort planting intentions. We will detail needed changes—some of which can be made administratively. However, we also would like to urge this Sub-committee to keep the need for this level playing field in mind as it forms future crop insurance legislation. Additionally, NGSP will detail other concerns that we urge this Sub-committee to address based on a Crop Insurance questionnaire that our organization recently distributed to our leadership and entire membership.

LEVELING THE PLAYING FIELD

Price Elections:

NGSP's efforts to change the manner in which price elections are determined are based on our belief that grain sorghum and corn should have equal treatment in government policy to help curtail government policy distortion of planting decisions, particularly on the heels of equal value and equal market prices for both commodities in recent years. When the CRC program was established, USDA based its price election for sorghum on a relationship to CBOT corn. Beginning with the 2004 crop, NGSP has been informed that the sorghum price election will be based on the price relationship between sorghum and corn in the January 2004 WASDE price outlook factored with the USDA baseline projections and the December CBOT contract. Hopefully, this change will recognize the fundamental shift in markets and cash prices due to ethanol and other new uses.

We appreciate USDA and RMA's willingness to revise this formula, and we thank them for their work in this area. We also would like to thank Members of this Committee and many of your colleagues in the House and Senate for their assistance in this area.

However, we are concerned that the use of the USDA baseline projections in this equation may put us back to square one, because the "track record" for the USDA sorghum baseline projection is inaccurate compared with what actually happened—in terms of supply variables, demand variables, price variables, and (most importantly for insurance purposes) the ratio of sorghum farm price to corn. This is, in part, because the USDA baseline was originally intended as a budget guideline tool rather than to determine the value of a crop.

Ethanol plants and other end users price sorghum equally with corn because it performs equally for them. Crop insurance should not drive planting intentions, nor should it artificially



distort them, and we are encouraged that this new manner of calculating price elections will help end these planting distortions.

However, NGSP will continue to monitor government data that will determine these price elections to ensure that the data is accurately reflecting market conditions and not further contributing to these market distortions that have resulted in a near collapse of industry infrastructure and the ability to provide a reliable supply of sorghum to meet market demands.

For example, USDA Sorghum Planting Intentions since 1996 (the year Crop Revenue Coverage came into being) have shown no increase in planted sorghum acreage, even during years when planting intentions for sorghum should have risen due to limited moisture and even this year since the sorghum loan rate was equalized with corn in the 2002 Farm Bill. In the past four years, market signals should have told farmers to plant more sorghum, given around a 50 percent jump in the high value food, seed and industrial uses from 2000 to 2003 that has led to higher cash prices for sorghum. However, it is NGSP's assertion (and many producers' own admissions) that government policy inequities discouraged these plantings.

In fact, a land management company that manages about one million acres in the Midwest this year advised its tenant farmers not to plant sorghum due to its lower crop insurance price elections and admitted as much in a letter to one of our state affiliates.

Here is an excerpt of the letter:

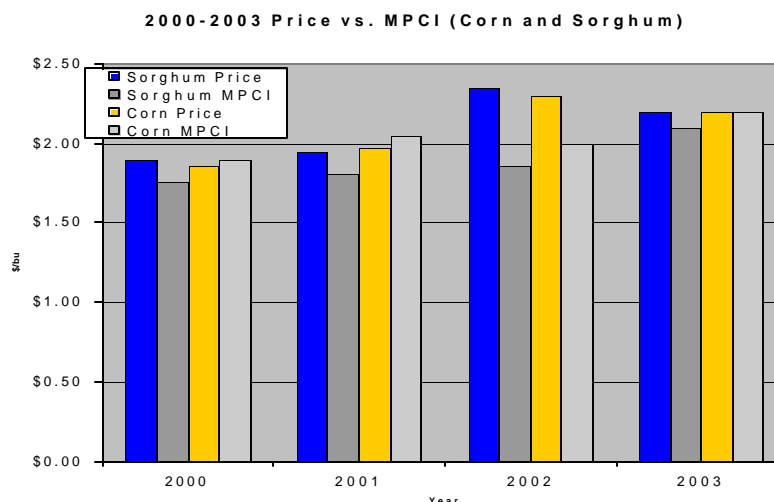
“Like many producers, we have sharply reduced the acreage planted to grain sorghum and even though it may make sense from an agronomic standpoint due to the drought to plant more acres to sorghum, it simply will not be done on our operations because of crop insurance.”

These price election inequities mean more government payouts on higher-risk crops that lack the drought tolerance needed to grow in the drier areas that are traditional sorghum producing areas. Sorghum farmers are penalized \$10 to \$30 per acre when droughts hit, encouraging farmers to plant higher-insurance-guarantee rather than sorghum.

However, price data collected by USDA runs contrary to continued inequities in price election levels for sorghum. Averaged over the last 3 years, the price of grain sorghum was just higher than that for corn, according to the annual USDA Crop Values Report released in late February 2003. According to the USDA report, the price for grain sorghum averaged over the last three years was \$2.08 per bushel, just above \$2.06 per bushel for corn during the same period. Recent USDA-ERS numbers give further indication that a fundamental market shift is



continuing to result in sorghum prices that are on par with prices for corn, both near and long-term, further making the case for a level crop insurance playing field. In its most recent monthly Feed Outlook report, the agency projected that by the end of the 2002/2003 marketing year, prices received by farmers for sorghum, forecast at \$2.32 per bushel, would be equal with corn. Additionally, USDA also predicts that prices for sorghum in 2003/2004 will be even with corn.



Multi-peril Crop Insurance has also discriminated against sorghum. As you can see in the above graph, MPCI coverage for sorghum is less than corn. Sorghum farmers are confused and frustrated when they are paid a price equal to corn or a premium at the local point of sale and then are told by USDA that the sorghum cannot be insured at the price level they are paid.

In addition to this market shift, and to prevent the sorghum industry from complete elimination of its infrastructure; sorghum price elections should be equalized with corn because:

- Data shows that sorghum is equivalent to corn for ethanol use. Each bushel of sorghum produces the same amount of ethanol and Distillers Dry Grain (DDG) as corn. DDG's for the two commodities are typically priced the same, although sorghum's DDG could demand a premium because of higher protein levels. More and more sorghum is being used in ethanol.
- Sorghum is a water conserving crop. By eliminating the incentive to plant higher-water-use crops due to higher CRC price elections, water can be saved in Texas, Nebraska, Kansas, and South Dakota. Hypothetically, by switching from irrigated corn to irrigated sorghum in 21 Texas Panhandle counties, over 50 years enough water could be saved annually to provide water each year for the city of Austin, which has 294, 400 households.

It should be noted that NGSP has been told that some lenders are being asked to document "crop insurance cash assurances" to bank examiners as part of documenting a loan's soundness. As a result, some lenders are making the planting decisions for their borrowers and requiring



their borrowers to plant some other crop besides sorghum due to sorghum's lower crop insurance guarantees. Business is business, and NGSP understands the position that lenders and examiners are in, given current economic conditions.

As an example of this, here is an excerpt of an email NGSP received from a concerned Great Plains banker who is also a farmer:

To: 'Mr. Tim Lust'
Subject: RE: Disaster Hearing

. . . This drought could bring a lot more interest in milo. If we get some moisture, milo will be better than corn. Milo may be better than corn on some irrigated ground with limited water.

However I have had to tell customers that for 2002, dryland corn is better than dryland milo. Milo has a lower "T-yield" on MPCII/CRC. CRC milo price [price election] is 95% of corn. Finally, almost all dryland corn in this area is appraising at "0" bpa. My milo has heads. I don't know how it will appraise. If it appraises at 3 bushels per acre, my CRC payment will be reduced by \$8 per acre (based at \$2.80 Dec CBOT x 95%). . . What I get for planting a moisture saving crop is a lower CRC payment. Based on my APH information (with 2 years of T-yield), Dec CBOT of \$2.80, and 3 bpa appraisal, milo will net \$35 per acre less than corn.

**[Corn: 68 bpa APH x 70% x \$2.80 = \$133
[Milo: 57 bpa APH x 70% less 3 bpa appraisal x \$2.66 = \$98]**

This is just one of several examples that have been strongly communicated to NGSP regarding the unintended consequences of federal crop insurance.

Product Access and Availability:

Currently, sorghum producers have no access to Revenue Assurance products, and many of our members tell us that they would like this product for grain sorghum. Sorghum farmers like this program. They use it on other crops and want Revenue Assurance for sorghum as well. This program can be a valuable risk management tool for farmers that are looking to protect their profits. Additionally, sorghum has not been included in Cost of Production pilot projects. Current new-product-development efforts have largely ignored or been ineffective for this nation's sorghum producers. NGSP has been told that RMA is reviewing a new combined revenue insurance product for 2006, but until then, sorghum remains the only program crop that does not have Revenue Assurance. Further, we have been told that RMA will not allow Revenue Assurance to be sold to sorghum farmers until changes are made in 2006.

Finally, for six years, NGSP has been working toward insurance coverage for sorghum silage. To date, sorghum silage is not insurable, while corn silage can be insured, and we have been told by RMA that it will not be insurable until at least the 2005 crop year. The sorghum industry continues to struggle with the ability to insure the production of sorghum silage.



According to data released from the Texas A&M University Extension Center – Bushland, Texas, in 2001, sorghum silage out-yielded corn silage in both tonnage and pounds of quality product while using approximately half the irrigation water required for corn silage. Despite all the time and energy that the House Agriculture Committee, National Grain Sorghum Producers and Risk Management Agency have put into understanding, researching and documenting the merits of sorghum silage insurance, farmers currently cannot insure the crop in the U.S. today. At a time of multi-year droughts when producers need water-saving options, government crop insurance policy is dictating that farmers grow corn silage with insurance in order to get financing by their bankers. It is unacceptable to any agricultural commodity that it should take eight years to get new insurance products in place. Therefore, we ask that the ag committee instruct RMA to make the sorghum silage policy a rider on the sorghum grain insurance provisions for the 2004 crop year.

Producers in the arid regions of the U.S. Sorghum Belt continue to wait for coverage that will allow them to grow a water-conserving silage crop with the assurance of an equal insurance safety net.

Crop Insurance Yields & Premium Subsidies:

As part of information gathering for this hearing, NGSP surveyed its membership about concerns and improvements regarding insurance. While inequities in price elections topped the list of concerns, APH yield guarantees and the high cost of premiums followed closely.

Throughout much of the U.S. Sorghum Belt, multiple-year droughts on the Plains have destroyed guaranteed yields for crop insurance purposes, unfortunately making the program largely ineffective. Due to the continued threat of drought, we are concerned that, in the face of these disasters, farmers are not adequately or realistically protected.

We urge this Sub-committee to consider changing the manner in which actual production histories (APH) are calculated. NGSP suggests this Sub-committee order a study of various alternatives such as what adjustments could be given to either APH or premiums in counties that have been declared disaster areas. After all, it is the widespread disasters that have the greatest impact, not only on producers, but on the rural communities that are dependent upon a healthy farm economy.

CONCLUSION

We would like to thank this Sub-committee for convening this hearing today, and we would be happy to provide any further input or information at any time. Thank you.